

**FCC Form 481 - Carrier Annual Reporting
Data Collection Form**

 FCC Form 481
 OMB Control No. 3060-0986/OMB Control No. 3060-0819
 July 2013

<010> Study Area Code	482235
<015> Study Area Name	BLACKFOOT TEL - BTC
<020> Program Year	2014
<030> Contact Name: Person USAC should contact with questions about this data	Michelle Norbeck
<035> Contact Telephone Number: Number of the person identified in data line <030>	406-541-5131
<039> Contact Email Address: Email of the person identified in data line <030>	mnorbeck@blackfoot.com

ANNUAL REPORTING FOR ALL CARRIERS		54.313 Completion Required	54.422 Completion Required
<100> Service Quality Improvement Reporting	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<200> Outage Reporting (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<210> <input checked="" type="checkbox"/> <-- check box if no outages to report			
<300> Unfulfilled Service Requests (voice)	0	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<310> Detail on Attempts (voice)	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<320> Unfulfilled Service Requests (broadband)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<330> Detail on Attempts (broadband)	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<400> Number of Complaints per 1,000 customers (voice)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<410> Fixed	0.0		
<420> Mobile			
<430> Number of Complaints per 1,000 customers (broadband)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<440> Fixed	0.0		
<450> Mobile			
<500> Service Quality Standards & Consumer Protection Rules Compliance	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<510> 482235mc510	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<600> Functionality in Emergency Situations	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<610> 482235mc610	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<700> Company Price Offerings (voice)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<710> Company Price Offerings (broadband)	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<800> Operating Companies and Affiliates	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<900> Tribal Land Offerings (Y/N)? <input checked="" type="radio"/> <input type="radio"/>	(if yes, complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1000> Voice Services Rate Comparability	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1010>	(attach descriptive document)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1100> Terrestrial Backhaul (Y/N)? <input checked="" type="radio"/> <input type="radio"/>	(if not, check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1110>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<1200> Terms and Condition for Lifeline Customers	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Price Cap Carriers, Proceed to Price Cap Additional Documentation Worksheet
 Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers

<2000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<2005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Rate of Return Carriers, Proceed to ROR Additional Documentation Worksheet

<3000>	(check to indicate certification)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
<3005>	(complete attached worksheet)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

**(100) Service Quality Improvement Reporting
Data Collection Form**

FCC Form 481

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<015>	Study Area Name	BLACKFOOT TEL - BTC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5133
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com
<110>	Has your company received its ETC certification from the FCC?	(yes / no) <input type="radio"/> <input checked="" type="radio"/>
	If your answer to Line <110> is yes, do you have an existing §54.202(a) "5 year plan" filed with the FCC?	
<111>		(yes / no) <input type="radio"/> <input checked="" type="radio"/>

If your answer to Line <111> is yes, then you are required to file a progress report, on line <112> delineating the status of your company's existing § 54.202(a) "5 year plan" on file with the FCC, as it relates to your provision of voice telephony service.

- <112> Attach Five-Year Service Quality Improvement Plan or, in subsequent years, your annual progress report filed pursuant to 47 C.F.R. § 54.313(a)(1). If your company is a CETC which only receives frozen support, your progress report is only required to address voice telephony service.

Name of Attached Document (.pdf)

Please check these boxes below to confirm that the attached PDF, on line 112, contains a progress report on its five-year service quality improvement plan pursuant to § 54.202(a). The information shall be submitted at the wire center level or census block as appropriate.

- <113> Maps detailing progress towards meeting plan targets
 <114> Report how much universal service (USF) support was received
 <115> How (USF) was used to improve service quality
 <116> How (USF) was used to improve service coverage
 <117> How (USF) was used to improve service capacity
 <118> Provide an explanation of network improvement targets not met in the prior calendar year.

<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

<010>	Study Area Code	482235
<015>	Study Area Name	BLACKFOOT TEL - BTC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
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<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

[illegible]

<701>	Residential Local Service Charge Effective Date	1/1/2013
<702>	Single State-wide Residential Local Service Charge	

-- See attached worksheet	
--	

(710) Broadband Price Offerings Data Collection Form	FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
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<010>	Study Area Code	482235
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<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

[illegible]

(800) Operating Companies	FCC Form 481
Data Collection Form	OMB Control No. 3060-0986/OMB Control No. 3060-0819
	July 2013

<010>	Study Area Code	482235
<015>	Study Area Name	BLACKFOOT TEL - BTC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Morbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mmorbeck@blackfoot.com
<810>	Reporting Carrier	Blackfoot Telephone Cooperative, Inc.
<811>	Holding Company	
<812>	Operating Company	Blackfoot Telephone Cooperative, Inc.

[illegible]

**(900) Tribal Lands Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	482235
<015>	Study Area Name	BLACKFOOT TEL - BTC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com
<910>	Tribal Land(s) on which ETC Serves	Confederated Salish and Kootenai Tribes


<920> Tribal Government Engagement Obligation

482235et920

Name of Attached Document (.pdf)

If your company serves Tribal lands, please select (Yes, No, NA) for each these boxes to confirm the status described on the attached PDF, on line 920, demonstrates coordination with the Tribal government pursuant to § 54.313(a)(9) includes:

<921>	Needs assessment and deployment planning with a focus on Tribal community anchor institutions;	No
<922>	Feasibility and sustainability planning;	No
<923>	Marketing services in a culturally sensitive manner;	No
<924>	Compliance with Rights of way processes	Yes
<925>	Compliance with Land Use permitting requirements	Yes
<926>	Compliance with Facilities Siting rules	Yes
<927>	Compliance with Environmental Review processes	Yes
<928>	Compliance with Cultural Preservation review processes	Yes
<929>	Compliance with Tribal Business and Licensing requirements.	NA

Select (Yes, No, NA)
No

No
No
Yes
Yes
Yes
Yes
Yes
NA

**(1100) No Terrestrial Backhaul Reporting
Data Collection Form**

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

July 2013

<010>	Study Area Code	482235
<015>	Study Area Name	BLACKFOOT TEL + ETC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

Please check this box to confirm no terrestrial backhaul
<1120> options exist within the supported area pursuant to § 54.313(G) ☐

Please check this box to confirm the reporting carrier offers
<1130> broadband service of at least 1 Mbps downstream and 256 kbps
upstream within the supported area pursuant to § 54.313(G) ☐

(1200) Terms and Condition for Lifeline Customers**Lifeline****Data Collection Form**

FCC Form 481

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July 2013

<010>	Study Area Code	462235
<015>	Study Area Name	BLACKFOOT TEL - ETC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

<1210> Terms & Conditions of Voice Telephony Lifeline Plans

Name of attached document (.pdf)

<1220> Link to Public Website

HTTP <http://www.blackfoot.com/residential-services.shtml>

"Please check these boxes below to confirm that the attached PDF, on line 1210, or the website listed, on line 1220, contains the required information pursuant to § 54.422(a)(2) annual reporting for ETCs receiving low-income support, carriers must annually report:

<1221> Information describing the terms and conditions of any voice telephony service plans offered to Lifeline subscribers, ☒

<1222> Details on the number of minutes provided as part of the plan, ☒

<1223> Additional charges for toll calls, and rates for each such plan. ☒

(2000) Price Cap Carrier Additional Documentation**Data Collection Form***Including Rate-of-Return Carriers affiliated with Price Cap Local Exchange Carriers*

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July 2013

<010>	Study Area Code	482235
<015>	Study Area Name	BLACKFOOT TEL - BTC
<020>	Program Year	2014
<030>	Contact Name - Person USAC should contact regarding this data	Michelle Norbeck
<035>	Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039>	Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

CHECK the boxes below to note compliance as a recipient of Incremental Connect America Phase I support, frozen High Cost support, High Cost support to offset access charge reductions, and Connect America Phase II support as set forth in 47 CFR § 54.313(b),(c),(d),(e) the information reported on this form and in the documents attached below is accurate.

Incremental Connect America Phase I reporting

- <2010> 2nd Year Certification (47 CFR § 54.313(b)(1)) ☐
- <2011> 3rd Year Certification (47 CFR § 54.313(b)(2)) ☐

Price Cap Carrier Receiving Frozen Support Certification (47 CFR § 54.312(a))

- <2012> 2013 Frozen Support Certification ☐
- <2013> 2014 Frozen Support Certification ☐
- <2014> 2015 Frozen Support Certification ☐
- <2015> 2016 and future Frozen Support Certification ☐

Price Cap Carrier Connect America ICC Support (47 CFR § 54.313(d))

- <2016> Certification Support Used to Build Broadband ☐

Connect America Phase II Reporting (47 CFR § 54.313(e))

- <2017> 3rd year Broadband Service Certification ☐
- <2018> 5th year Broadband Service Certification ☐
- <2019> Interim Progress Certification ☐
- <2020> Please check the box to confirm that the attached PDF, on line 2021, contains the required information pursuant to § 54.313 (e)(3)(ii), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year. ☐
- <2021> Interim Progress Community Anchor Institutions ☐

Name of Attached Document Listing Required Information

(3000) Rate Of Return Carrier Additional Documentation

Data Collection Form

FCC Form 481

OMB Control No. 3060-0986/OMB Control No. 3060-0819

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<010> Study Area Code	482235
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<035> Contact Telephone Number - Number of person identified in data line <030>	406-541-5131
<039> Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com

CHECK the boxes below to note compliance on its five year service quality plan (pursuant to 47 CFR § 54.202(a)) and, for privately held carriers, ensuring compliance with the financial reporting requirements set forth in 47 CFR § 54.313(f)(2). I further certify that the information reported on this form and in the documents attached below is accurate.

Progress Report on 5 Year Plan

<p>(3010) Milestone Certification (47 CFR § 54.313(f)(1)(i)) Please check this box to confirm that the attached PDF, on line 3012, contains the required information pursuant to § 54.313(f)(1)(i), as a recipient of CAF Phase II support shall provide the number, names, and addresses of community anchor institutions to which began providing access to broadband service in the preceding calendar year.</p> <p>(3011)</p>	<p>Name of Attached Document Listing Required Information</p> <p><input type="checkbox"/></p>
<p>(3012) Community Anchor Institutions (47 CFR § 54.313(f)(1)(ii)) (3013) Is your company a Privately Held ROR Carrier (47 CFR § 54.313(f)(2)) (3014) If yes, does your company file the RUS annual report Please check these boxes to confirm that the attached PDF, on line 3017, contains the required information pursuant to § 54.313(f)(2) compliance requires:</p> <p>(3015) Electronic copy of their annual RUS reports (Operating Report for Telecommunications Borrowers)</p> <p>(3016) PDF of Balance Sheet, Income Statement and Statement of Cash Flows</p> <p>(3017) If the response is yes on line 3014, attach your company's RUS annual report and all required documentation</p> <p>(3018) If the response is no on line 3014, is your company audited? If the response is yes on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains:</p> <p>(3019) Either a copy of their audited financial statement; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications</p> <p>(3020) PDF of Balance Sheet, Income Statement and Statement of Cash Flows</p> <p>(3021) Management letter issued by the independent certified public accountant that performed the company's financial audit. If the response is no on line 3018, please check the boxes below to confirm your submission, on line 3026 pursuant to § 54.313(f)(2), contains: Copy of their financial statement which has been subject to review by an independent certified public accountant; or (2) a financial report in a format comparable to RUS Operating Report for Telecommunications Borrowers.</p> <p>(3022) Underlying information subjected to a review by an independent certified public accountant</p> <p>(3023) Underlying information subjected to an officer certification</p> <p>(3024) PDF of Balance Sheet, Income Statement and Statement of Cash Flows</p> <p>(3025) Attach the worksheet listing required information</p> <p>(3026)</p>	<p>Name of Attached Document Listing Required Information</p> <p><input checked="" type="checkbox"/> (Yes/No) <input type="checkbox"/> (Yes/No)</p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p>Name of Attached Document Listing Required Information</p> <p><input checked="" type="checkbox"/> (Yes/No)</p> <p><input checked="" type="checkbox"/></p> <p><input checked="" type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p>Name of Attached Document Listing Required Information</p> <p>482235mt.3026</p>

Certification - Reporting Carrier Data Collection Form		FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
<010> Study Area Code	402235	
<015> Study Area Name	BLACKFOOT TEL - BTC	
<020> Program Year	2014	
<030> Contact Name - Person USAC should contact regarding this data	Michelle Norbeck	
<035> Contact Telephone Number - Number of person identified in data line <030>	406-541-5131	
<039> Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com	

TO BE COMPLETED BY THE REPORTING CARRIER, IF THE REPORTING CARRIER IS FILING ANNUAL REPORTING ON ITS OWN BEHALF:

Certification of Officer as to the Accuracy of the Data Reported for the Annual Reporting for CAF or LI Recipients	
I certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual reporting requirements for universal service support recipients; and, to the best of my knowledge, the information reported on this form and in any attachments is accurate.	
Name of Reporting Carrier:	BLACKFOOT TEL - BTC
Signature of Authorized Officer:	CERTIFIED ONLINE Date 10/10/2013
Printed name of Authorized Officer:	Michelle Norbeck
Title or position of Authorized Officer:	Carrier & Regulatory Specialist
Telephone number of Authorized Officer:	406-541-5131
Study Area Code of Reporting Carrier:	402235 Filing Due Date for this form: 10/15/2013
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Certification - Agent / Carrier Data Collection Form		FCC Form 481 OMB Control No. 3060-0986/OMB Control No. 3060-0819 July 2013
<010> Study Area Code	482235	
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<020> Program Year	2014	
<030> Contact Name - Person USAC should contact regarding this data	Michelle Norbeck	
<035> Contact Telephone Number - Number of person identified in data line <030>	406-541-5131	
<039> Contact Email Address - Email Address of person identified in data line <030>	mnorbeck@blackfoot.com	

TO BE COMPLETED BY THE REPORTING CARRIER, IF AN AGENT IS FILING ANNUAL REPORTS ON THE CARRIER'S BEHALF:

Certification of Officer to Authorize an Agent to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I certify that (Name of Agent) _____ is authorized to submit the information reported on behalf of the reporting carrier. I also certify that I am an officer of the reporting carrier; my responsibilities include ensuring the accuracy of the annual data reporting requirements provided to the authorized agent; and, to the best of my knowledge, the reports and data provided to the authorized agent is accurate.	
Name of Authorized Agent: _____	
Name of Reporting Carrier: _____	
Signature of Authorized Officer: _____	Date: _____
Printed name of Authorized Officer: _____	
Title or position of Authorized Officer: _____	
Telephone number of Authorized Officer: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

TO BE COMPLETED BY THE AUTHORIZED AGENT:

Certification of Agent Authorized to File Annual Reports for CAF or LI Recipients on Behalf of Reporting Carrier	
I, as agent for the reporting carrier, certify that I am authorized to submit the annual reports for universal service support recipients on behalf of the reporting carrier; I have provided the data reported herein based on data provided by the reporting carrier; and, to the best of my knowledge, the information reported herein is accurate.	
Name of Reporting Carrier: _____	
Name of Authorized Agent or Employee of Agent: _____	
Signature of Authorized Agent or Employee of Agent: _____	Date: _____
Printed name of Authorized Agent or Employee of Agent: _____	
Title or position of Authorized Agent or Employee of Agent: _____	
Telephone number of Authorized Agent or Employee of Agent: _____	
Study Area Code of Reporting Carrier: _____	Filing Due Date for this form: _____
Persons willfully making false statements on this form can be punished by fine or forfeiture under the Communications Act of 1934, 47 U.S.C. §§ 502, 503(b), or fine or imprisonment under Title 18 of the United States Code, 18 U.S.C. § 1001.	

Attachments

Service Quality Standards & Consumer Protection Rules Compliance

October 9, 2013

Michelle Norbeck

Carrier & Regulatory Specialist

Blackfoot Telecommunications Group

Blackfoot Telecommunications Group comprised of Blackfoot Telephone Cooperative, Inc. (SAC 482235 and 483308) and Fremont Telcom Co. (SAC 472222) has implemented a variety of service quality standards and consumer protection policies and procedures. This document provides a high level description of the measures in place to.

Service Quality

The companies comply with service quality standards by meeting all requirements in the Administrative Rules of Montana 38.5.3371 and Idaho Administrative Code I.D.A.P.A. 31.41.01.500, as well as, all applicable federal consumer protection rules.

Consumer Protection

The companies comply with consumer protection obligations by meeting requirements in Administrative Code I.D.A.P.A. 31.41.01, applicable consumer protection regulation in the state of Montana, as well as, all federal consumer protection rules. The companies general practice is to treat all information as if it were private, in addition CPNI and Red Flag policies and procedures are observed and trained on annually. CALEA obligations and processes are strictly adhered to. Noticing is undertaken annually in relation to do not call and call before you dig. Noticing of rate changes is provided to educate customers about changes appearing on their bills regardless of the jurisdiction or regulated nature of the service.

Functionality in Emergency Situations

October 8, 2013

Frank Creasia

VP Network Operations

Blackfoot Telecommunications Group

This document provides a high level description of the measures in place to provide functionality in Emergency situations in the Blackfoot, Clarkfork and Fremont study areas.

Central Offices in all 3 study areas are equipped with backup generators in the event of commercial AC power failures. Fuel supplies for these generators are adequate for 24-36 hours of operation and back up batteries located in each central office provide an additional 6-8 hours of backup power.

All remote subscriber carrier locations are equipped with backup batteries that are capable of providing 8-12 hours of DC power in the event of a commercial AC power failure. We also maintain a pool of portable generators that are used to recharge these batteries if the AC power is not restored prior to the batteries being fully discharged.

Where practical, fiber optic cable routes that provide connectivity to a remote central office back to the host central office have diverse routes to insure uninterrupted operation in the event of a cable cut or failure. If diverse routes are not practical the remote central office is equipped with a "stand alone" function that insures uninterrupted operation within the remoter central office service area.

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<810>	Reporting Carrier	Blackfoot Telephone Cooperative, Inc.
<811>	Holding Company	
<812>	Operating Company	Blackfoot Telephone Cooperative, Inc.

[illegible]

Tribal Engagement Obligation

October 9, 2013

Dave Martin

VP Product Management/CTO

Blackfoot Telecommunications Group

Blackfoot Telephone Cooperative, Inc. (SAC 482235) provides services on tribal lands and works regularly with the Confederated Salish and Kootenai Tribes to address their service needs. To comply with the Tribal Engagement Obligation the following letter was sent to our contact in October of 2012 to start the engagement process addressing all of the obligations established in the Transformation Order. Blackfoot attempted on four separate occasions to engage the tribe in meaningful conversations about a needs assessment, deployment planning, feasibility and sustainability planning, as well as, marketing in a culturally sensitive manner. On November 7, 2012 our contact indicated that he was seeking direction from the tribal leaders on whether they wished to participate in this process and would get back to us. We did not receive further response from them on the engagement process so we were not able to comply with the requirements in lines 921, 922, and 923.



10/23/2012

Lorin Peterson
Confederated Salish & Kootenai Tribes
42487 Complex Blvd.
PO Box 278
Pablo, Montana 59855

Dear Mr. Peterson,

On behalf of Blackfoot Telephone Cooperative, Inc. (Blackfoot) I would like to thank you for the opportunity for Blackfoot to provide services to the Confederated Salish & Kootenai Tribes (the Tribes). Blackfoot has long valued the Tribes' role as active member-owners in the cooperative.

As a regulated company receiving federal support dollars, Blackfoot falls under the Federal Communication Commission's (FCC) regulatory authority. In a recent Order the FCC mandated certain requirements to which Blackfoot must adhere.¹ One of those requirements is that Blackfoot must certify on an annual basis that it has engaged the Tribes to ensure a sufficient exchange of information between Blackfoot and the Tribes that will lead to a common understanding on the deployment and improvement of communications services on Tribal lands. The engagement process is intended to be beneficial to all parties with a goal to improve connectivity for 21st century economic opportunities, education, health care, and public safety consistent with the nation's communication services goals for all Tribal anchor institutions as well as Tribal members. Blackfoot looks forward to furthering its discussions with the Tribes in ways that result in increased connectivity to our valued member-owners.

In that vein, Blackfoot seeks to engage the Tribes in dialogue on the areas discussed below as required by the FCC. The main deliverable of this engagement process is a document that acknowledges the Tribes' recommendations for each of these areas and the items Blackfoot is able to implement. Any remaining recommendations will be retained for discussion in subsequent years to the extent deemed feasible by the Tribes and Blackfoot. To ensure that the engagement process effectively and accurately encompasses the needs of the Tribes, both Blackfoot and the Tribes must designate representatives with decision making power to participate in this process. As Blackfoot's Vice President of Product Management and Chief Technology Officer, I am serving as the primary contact for the Tribes for strategic technology planning, and Joel Block, our VP of Customer Operations and Marketing, will take point for marketing and customer service strategies.

¹ WC Docket No. 10-90, FCC 11-161, "Transformation Order", released November 18, 2011, ¶ 604. "ETCs serving Tribal lands must include in their reports documents or information demonstrating that they have meaningfully engaged Tribal governments in their supported areas."

1221 North Russell Street, Missoula, MT 59808

406-541-5000 main

www.blackfoot.com

Blackfoot Telephone Cooperative

Blackfoot Communications

TeleSphere Software

Needs Assessment and Deployment Planning

Blackfoot requests that the Tribes provide a needs assessment for anchor institutions and Tribal members. Anchor institutions are generally hospitals, medical facilities, schools or tribal agencies. Based on that needs assessment, Blackfoot will begin deployment planning discussions with the Tribes.

Feasibility Planning

If Blackfoot is unable to deploy services identified by the Tribes using existing facilities, Blackfoot will develop a feasibility plan working towards deployment of services to anchor institutions and Tribal members as identified by the needs assessment. The goal of the resulting plan will be to evaluate deployment of services in a practical and timely manner where the stated needs are reasonably feasible or may be retained for future consideration.

Sustainability Planning

Improving the connectivity of a community is no simple task. It takes long-term strategies and policy making to sustain changes in communications systems and the necessary community and organizational infrastructure to carry out those policies. A comprehensive plan for sustaining the Tribes' communication connectivity efforts can help it manage internal and external challenges. Blackfoot will work with the Tribes to develop a sustainability plan.

Culturally Sensitive Marketing

Blackfoot requests that the Tribes and Blackfoot engage in exploring ways in which to coordinate and partner to ensure that services are marketed in a manner that will relate directly to the community, resonate with consumers, and stimulate increased adoption of services on Tribal lands.

Rights-of-Way, Land Use, Facilities Siting, Environmental and Cultural Preservation Review & Processes

Blackfoot requests that the Tribes and Blackfoot review the various permitting processes and requirements on Tribal lands. This will enable Blackfoot to ensure that it is compliant with all Tribal permitting requirements.

Business and Licensing Compliance

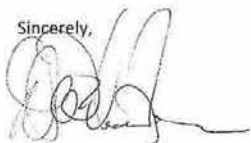
Blackfoot understands that as a sovereign nation, Tribal governments have the authority to impose Tribal business and licensing requirements on all entities doing business on their lands. Blackfoot requests that the Tribes and Blackfoot review any relevant business and licensing requirements to ensure Blackfoot's compliance.

Timing

Pursuant to the FCC's rules, the 2012 engagement must be completed no later than December 31, 2012. Blackfoot must then certify with the FCC and the Confederated Salish and Kootenai Tribes by July 1, 2013, indicating that it undertook the steps outlined above to meaningfully communicate with the Tribes. This engagement letter and companion attachments are intended to document this process and memorialize any resulting agreements or plans.

As valuable member-owners of the cooperative, we look forward to working with the Tribes to ensure we are doing everything technically feasible to provide communications services to the Tribes. We will be following up this letter with a call to you in the next few weeks so we can begin discussing this very important initiative.

Sincerely,



David Martin
VP - Product Mgmt. and Chief Technology Officer
Blackfoot Telephone Cooperative, Inc.



Joel Block
VP - Customer Operations and Marketing
Blackfoot Telephone Cooperative, Inc.



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Joining us is a privilege. Stay focused.



March 2, 2013

Attached you will find in PDF format (*with printing capabilities only*) the financial statements as of December 31, 2012. You should not alter the language or financial information included in the document.

Any reproduction of the financial statements must be in their entirety, including our accompanying reports. You may not include the financial statements and our report in an annual report, offering memorandum, or similar document without our review and approval.

You must have version 8 or later of Acrobat Reader to open the attached financial statements, then double-click in the area below. Your opening of this attachment indicates your understanding and acceptance of these conditions.

Please do not hesitate to contact me if you have any questions.

MOSS ADAMS LLP

Camille Christian

Camille Christiansen, Senior Manager

Attachment

:geg

100 years THAT COUNTS

Report of Independent Auditors
Consolidated Financial Statements
With Supplementary Information for

**Blackfoot Telephone
Cooperative, Inc.**

December 31, 2012 and 2011

MOSS ADAMS LLP

Chartered Accountants, Chartered Accountants

Chartered Accountants, Chartered Accountants



Report of Independent Auditors and
Consolidated Financial Statements
with Supplementary Information for

Blackfoot Telephone
Cooperative, Inc.

December 31, 2012 and 2011

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REPORT OF INDEPENDENT AUDITORS

Board of Trustees
Blackfoot Telephone Cooperative, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Blackfoot Telephone Cooperative, Inc. (Cooperative) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

REPORT OF INDEPENDENT AUDITORS
(continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blackfoot Telephone Cooperative, Inc. and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Moss Adams LLP

Spokane, Washington
February 28, 2013

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,356,590	\$ 5,435,988
Restricted cash	552,127	223,671
Subscriber receivables	1,892,552	1,880,609
Settlement and access accounts receivable	1,292,207	1,247,520
Other accounts receivable	435,623	171,214
Material and supplies	379,260	539,219
Other current assets	427,797	449,076
	<u>16,336,156</u>	<u>9,947,297</u>
NONCURRENT ASSETS		
Investment in nonaffiliates	2,195,184	2,219,762
Investments in certificates of deposits	2,050,001	2,300,000
Available for sale securities	4,732,305	7,881,250
Goodwill	836,972	-
Intangible assets	1,816,010	1,564,466
	<u>11,630,472</u>	<u>13,965,478</u>
PROPERTY, PLANT, AND EQUIPMENT		
Regulated telecommunications plant in service	112,822,481	110,063,371
Regulated telecommunications plant under construction	103,193	256,118
Nonregulated plant in service	13,330,077	12,466,716
Nonregulated plant under construction	125,037	197,705
	<u>126,380,788</u>	<u>122,983,910</u>
Less accumulated depreciation and amortization	78,579,914	72,652,423
	<u>47,800,874</u>	<u>50,331,487</u>
	<u>\$ 75,767,502</u>	<u>\$ 74,244,262</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	December 31,	
	2012	2011
CURRENT LIABILITIES		
Accounts payable	\$ 1,511,996	\$ 1,602,572
Advance billing and customer deposits	1,810,578	1,794,128
Current maturities of long-term debt	3,061,233	3,007,380
Other accrued taxes	431,332	439,216
Other accrued liabilities	2,624,641	2,161,893
Accrued interest payable	65,630	78,879
Income taxes payable	4,303	8,904
	<u>9,509,713</u>	<u>9,092,972</u>
 Total current liabilities		
	<u>9,509,713</u>	<u>9,092,972</u>
 LONG-TERM DEBT, net of current portion	<u>16,419,056</u>	<u>18,641,698</u>
 OTHER DEFERRED CREDITS		
Other deferred credits	3,241,808	2,919,911
Deferred income tax	85,616	127,934
	<u>3,327,424</u>	<u>3,047,845</u>
 Total other deferred credits		
	<u>3,327,424</u>	<u>3,047,845</u>
 MEMBERS' EQUITY		
Memberships and other capital	46,811,732	43,231,750
Accumulated other comprehensive income (loss)	(300,423)	229,997
	<u>46,511,309</u>	<u>43,461,747</u>
 Total members' equity		
	<u>46,511,309</u>	<u>43,461,747</u>
	<u>\$ 75,767,502</u>	<u>\$ 74,244,262</u>

See accompanying notes.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2012	2011
Operating revenues		
Local	\$ 8,126,148	\$ 8,488,275
Interstate	11,502,298	11,351,174
Intrastate	1,224,018	1,607,156
Long distance	1,385,135	1,437,232
Customer premise equipment (CPE)	200,904	261,601
Data services	7,004,579	6,195,794
Security	139,642	121,905
Telesphere	2,200,145	1,880,818
Miscellaneous	2,000,693	1,485,627
Uncollectible revenue	(46,314)	143,706
	<u>33,737,248</u>	<u>32,973,288</u>
Operating Expenses		
Plant specific operations	6,141,414	5,841,284
Plant nonspecific operations	2,305,783	2,319,990
Cost of goods sold - Telesphere	1,074,222	1,112,292
Cost of goods sold - Data	2,051,137	1,683,985
Cost of goods sold - Security	142,085	179,649
Cost of goods sold - CPE	118,532	177,961
Depreciation and amortization	7,257,622	7,062,769
Customer operations	4,017,883	3,899,430
Corporate operations	4,685,876	4,285,890
Other operating taxes	877,043	1,020,020
	<u>28,671,597</u>	<u>27,583,270</u>
Operating margins	<u>5,065,651</u>	<u>5,390,018</u>
Nonoperating income (expense)		
Interest and dividend income	338,611	389,257
Loss on sale, disposal, and impairment of assets	(74,448)	(26,110)
Interest expense	(820,306)	(935,619)
Allowance for funds used during construction	3,597	41,088
Other nonoperating expense	723,169	87,105
	<u>170,623</u>	<u>(444,279)</u>
Margins before income taxes	5,236,274	4,945,739
Income tax benefit (expense)	<u>120,375</u>	<u>(24,073)</u>
Net margins	<u>\$ 5,356,649</u>	<u>\$ 4,921,666</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2012	2011
Net margins	\$ 5,356,649	\$ 4,921,666
Other comprehensive income (loss) before tax		
Defined benefit postretirement benefit plans		
Amortization of transition obligation and net loss included in net periodic benefit cost	27,162	23,846
Net loss arising during period	(63,759)	(184,117)
	(36,597)	(160,271)
Unrealized gains on securities		
Reclassification adjustment for gains included in net margins	(772,635)	(25,983)
Unrealized holding gains arising during period	278,812	69,013
	(493,823)	43,030
Other comprehensive loss	(530,420)	(117,241)
Comprehensive income	\$ 4,826,229	\$ 4,804,425

See accompanying notes.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

	Memberships and Other Capital	Margins Assignable	Margins Assigned	Permanent Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	\$ 455,556	\$ (2,507,732)	\$ 32,977,662	\$ 9,580,716	\$ 347,238	\$ 40,853,440
Net loss for 2011	-	4,921,666	-	-	-	4,921,666
Patronage capital retired	-	-	(3,751,315)	1,944,205	-	(1,807,110)
Donated equity	2,543,962	-	(2,549,130)	-	-	(5,168)
Other	-	-	(259,347)	-	-	(259,347)
Educational services and software donations	(124,493)	-	-	-	-	(124,493)
Assigned margins	-	2,507,732	-	(2,507,732)	-	-
Change in unrealized gains on securities available for sale	-	-	-	-	69,013	69,013
Reclassification of realized gains	-	-	-	-	(25,983)	(25,983)
Amortization of unrecognized initial obligation and loss included in current year expense	-	-	-	-	23,846	23,846
Postretirement benefit adjustment	-	-	-	-	(184,117)	(184,117)
Balance, December 31, 2011	2,875,025	4,921,666	26,417,870	9,017,189	229,997	43,461,747
Net margins for 2012	-	5,356,649	-	-	-	5,356,649
Patronage capital retired	-	-	(1,574,713)	80,821	-	(1,493,892)
Donated equity	195,840	-	(215,014)	-	-	(19,174)
Other	-	3,061	(56,134)	35,274	-	(17,799)
Educational services and software donations	(245,802)	-	-	-	-	(245,802)
Assigned margins	-	(4,921,666)	2,412,391	2,509,275	-	-
Change in unrealized gains on securities available for sale	-	-	-	-	278,812	278,812
Reclassification of realized gains	-	-	-	-	(772,635)	(772,635)
Amortization of unrecognized initial obligation and losses included in current year expense	-	-	-	-	27,162	27,162
Postretirement benefit adjustment	-	-	-	-	(63,759)	(63,759)
Balance, December 31, 2012	<u>\$ 2,825,063</u>	<u>\$ 5,359,710</u>	<u>\$ 26,984,400</u>	<u>\$ 11,642,559</u>	<u>\$ (300,423)</u>	<u>\$ 46,511,309</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins	\$ 5,356,649	\$ 4,921,666
Adjustments to reconcile net margins to net cash from operating activities		
Depreciation and amortization	6,202,341	6,082,077
Nonregulated depreciation and amortization	1,055,281	980,692
Amortization	38,456	101,153
Noncash patronage distributions	(91,018)	(46,765)
Realized loss on sale of securities	(772,635)	-
Loss on asset disposal, net	(74,448)	(26,110)
Deferred income taxes	(42,318)	(49,912)
Allowance for funds used during construction	3,597	41,088
Change in assets and liabilities		
Restricted cash	(328,456)	(18,100)
Receivables	(338,838)	(470,143)
Material and supplies	159,959	(11,734)
Deferred charges	-	8,713
Other assets	21,279	95,677
Accounts payable	(90,576)	74,082
Advance billings and customer deposits	16,450	63,648
Other accrued liabilities	441,615	215,682
Income taxes	(4,601)	13,118
Deferred credits	285,300	140,533
Net cash from operating activities	<u>11,838,037</u>	<u>12,115,365</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net acquisition of nonregulated equipment	(1,075,402)	(1,237,405)
Net acquisition of property, plant, and equipment	(3,580,756)	(3,660,313)
Net acquisition of intangible assets and goodwill	(1,126,972)	-
Proceeds from sale of investments	10,415,062	207,014
Purchase of investments	(6,884,909)	(1,930,131)
Purchase of certificates of deposit	-	(2,300,000)
Proceeds from sale of certificates of deposit	249,999	780,000
Issuance of note receivable	-	(144,000)
Collections on loans	13,200	-
Net cash from investing activities	<u>(1,989,778)</u>	<u>(8,284,835)</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments	\$ (3,020,303)	\$ (2,984,156)
Proceeds from long term debt	851,514	144,000
Patronage capital retired	(1,493,892)	(1,807,110)
Donated capital	(264,976)	(129,661)
Net cash from financing activities	(3,927,657)	(4,776,927)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,920,602	(946,397)
CASH AND CASH EQUIVALENTS at beginning of year	5,435,988	6,382,385
CASH AND CASH EQUIVALENTS at end of year	\$ 11,356,590	\$ 5,435,988
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the year for		
Interest	\$ 863,963	\$ 927,773
Income taxes	\$ 49,662	\$ 61,271
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Postretirement benefit adjustment	\$ (36,597)	\$ (160,271)
Unrealized gain on available for sale securities	\$ 278,812	\$ 69,013

BLACKFOOT TELEPHONE COOPERATIVE, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

Description of entity – Blackfoot Telephone Cooperative, Inc. (Cooperative) provides local telephone exchange and long distance services to customers in western Montana. The Cooperative's subsidiaries provide switching services, long distance service and competitive local exchange carrier (CLEC) service, Internet service, retail sales of telephone systems, and equipment to customers throughout western Montana. Programming, sales, and support of computer software are offered to customers throughout the United States.

Principles of consolidation – Blackfoot Telephone Cooperative, Inc., the parent corporation, owns 100% of BTC Holdings, Inc. BTC Holdings, Inc. owns two subsidiaries: Blackfoot Communications, Inc. and Telesphere Software, Inc. The subsidiaries are included in the accompanying consolidated financial statements. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting policies – The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to regulated public utilities. Such accounting principles are consistent, in all material respects, with accounting prescribed by the Federal Communications Commission (FCC).

Accounting estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include depreciation expense, liability for incurred but not reported claims under the self-insurance plan, valuation of goodwill and intangible assets, and interstate access revenue settlements.

Cash equivalents – For purposes of the statements of cash flows, the Cooperative considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Certificates of deposit – The certificates of deposit are recorded at face value and mature within two to four years.

Concentration of risk – At various times throughout the year, the cash balances deposited in local institutions exceed federally insured limits. The Cooperative minimizes this risk by utilizing numerous financial institutions for deposits of cash funds.

The Cooperative received \$6.8 million and \$8.3 million, or 20% and 25% of its revenue from the Federal Universal Service Fund for the years ended December 31, 2012 and 2011, respectively.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (Continued)

Valuation of accounts receivable – Accounts receivable are stated at the amount management expects to collect on outstanding balances. The Cooperative reviews the collectability of accounts receivable annually based upon an analysis of outstanding receivables, historical collection information, and existing economic conditions. Receivables from subscribers are due 30 days after issuance of the subscriber bill. Receivables from other exchange carriers are typically outstanding 30 days before payment is received. Delinquent accounts are charged to uncollectible expense when it is determined the accounts will not be collected. Due to the immaterial nature of the Cooperative's uncollectible accounts, an allowance for uncollectible accounts is not deemed necessary and the result of this method does not materially differ from accounting principles generally accepted in the United States of America.

Material and supplies – Material and supplies are stated at the lower of average cost or market.

Investment securities – The Cooperative's policy for investment securities is as follows:

Trading securities – Trading securities consist of debt and equity securities that are bought and held principally for the purpose of selling in the near term and are reported at fair value, with unrealized gains and losses included in earnings. The Cooperative did not hold any trading securities during 2012 and 2011.

Securities held to maturity – Debt securities, for which the Cooperative has the positive intent and ability to hold to maturity, are classified as held to maturity. Held to maturity securities are stated at amortized cost. The Cooperative did not hold any held to maturity securities during 2012 and 2011.

Securities available for sale – Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with any unrealized gains and losses reported as a separate component of members' equity.

Property, plant, and equipment – Property, plant, and equipment are stated at cost. Regulated plant includes assets that are jointly used for regulated and nonregulated activities. The cost of additions and substantial betterments of property, plant, and equipment is capitalized. The cost of maintenance and repairs is charged to operating expenses. The Cooperative records as income and capitalizes as a cost of construction the cost of financing large construction projects spanning a period greater than two months. The Cooperative uses a weighted-average interest rate based on total Cooperative long-term debt.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Property, plant, and equipment (continued) – Property, plant, and equipment are depreciated using the straight-line method over their estimated useful lives. In accordance with composite group depreciation methodology, when a portion of the Cooperative's regulated depreciable property, plant, and equipment is retired in the ordinary course of business, the asset's original cost is charged to accumulated depreciation. When a portion of the Cooperative's nonregulated property, plant, and equipment is retired, a gain or loss on disposal is recorded.

Income tax status – In 2012, the Cooperative qualifies as a tax exempt entity because more than 85% of gross revenues are from Cooperative members. The Cooperative is also exempt for state income tax purposes. In 2011, the Cooperative was taxable for federal income tax purposes. Taxes are computed on operating income from activities unrelated to the Cooperative's exempt purpose. Margins earned from patronage sources and allocated as capital credits are not taxable.

The Cooperative's subsidiaries are taxable for both federal and state income tax purposes and file consolidated federal and state tax returns.

Deferred taxes are provided on a liability method whereby deferred tax liabilities are recognized for deductible temporary differences and deferred tax assets are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets relate mainly to net operating loss and alternative minimum tax carry forwards. Deferred tax liabilities relate primarily to the use of accelerated depreciation methods for tax purposes. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not some portion or all of the deferred tax will not be realized.

The Cooperative has accounted for uncertain tax positions whereby the effect of the uncertainty would be recorded if the likelihood the position will be sustained upon examination is less than 50%. As of December 31, 2012 and 2011, the Cooperative had no accrued amounts related to uncertain tax positions. Interest and penalties, if any, are recorded as interest expense and other expense, respectively. The Cooperative is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2009.

Members' equity – The Cooperative assigns patronage margins annually to its patrons based on the bylaws of the Cooperative and related board policies. Total patronage margins are computed on a book basis and consist of consolidated margins less nonoperating income. The allocation is made to individual patrons based on the amount of Cooperative services billed to each member for that year. The assignment to patron accounts is made in the subsequent year. Permanent equity is not assigned to members and consists primarily of nonoperating margins and strategic construction acquisition reserves.

BLACKFOOT TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Members' equity (continued) – A portion of the total assigned patronage capital is distributed to members as a general retirement each year. The total amount retired and the amount to be applied to each vintage year is determined by the Board of Trustees. All assigned margins prior to 1989 have been retired. Additionally, the Board approves early retirement requests from the estates of deceased patrons and defunct businesses. Early retirements for estates are discounted at 5%. The Cooperative also has a policy to retire capital credit accounts early to settle customer bad debts and to retire inactive accounts with a balance of less than \$100.

In 2011, Blackfoot Telephone Cooperative, Inc. implemented a program, which offered its members who had been inactive for more than three years the opportunity to redeem their account balances at a discount of 80%. The program ran from July 15, 2011, to August 31, 2011, for patrons electing to redeem their capital credits. As a result of the program, the Cooperative retired \$2,329,287 of its allocated capital credits, resulting in a cash payout to patrons of \$465,857. The remaining \$1,863,429 was recorded to permanent capital.

Comprehensive income – Comprehensive income is defined as the change in equity of a business during a period as a result of net margins and other gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net margins. Unrealized gains and losses on investments available for sale and unrecognized actuarial adjustments on postretirement benefit obligations are the items included in other comprehensive income (loss).

Revenue recognition – Monthly service fees derived from local wireline and Internet are billed one month in advance, but recognized in the month that service is provided.

Usage sensitive revenues such as access (revenues earned for originating/terminating long distance calls), and long distance are generally billed as a per-minute charge. Although these revenues are billed in arrears, an estimate of unbilled revenues is accrued in the month service is provided.

Interstate access revenues also include settlements based on the Cooperative's participation in the revenue pools administered by the National Exchange Carrier Association (NECA). Settlement revenues are determined by annually prepared separations and interstate access cost studies. These studies are prepared subsequent to year end and therefore, the related revenues are recorded on the books based on an estimate of NECA pool earnings and on other assumptions related to information utilized in the preparation of the Cooperative's cost study. Revenues for the current year are based on estimates prior to the submission of the cost study reporting actual results of operations. The studies are subject to a 24-month pool adjustment period by NECA. There was an insignificant revenue impact in 2012 and 2011 for adjustments related to prior year differences between the recorded estimates and actual revenues. Management does not anticipate significant adjustments to recorded revenues for the years ended December 31, 2012 or 2011, in future years.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Revenue recognition (continued) – Revenues derived from Telesphere software maintenance contracts are billed in advance but recognized in the month service is provided. Revenues related to the Telesphere service bureau are generally billed as a per message charge in arrears and recognized the month service is provided.

Data services revenues are derived from the provision of customer access to the public Internet, excluding revenues attributable to digital subscriber line (DSL) transport (line costs between the customer and the Cooperative's equipment that routes Internet traffic).

The Cooperative's wireline universal service support revenue is intended to compensate the Cooperative for the high cost of providing rural telephone service. Universal service support revenue includes funds received for high cost loop support, local switching support (prior to July 1, 2012), interstate common line support, Connect America Fund (CAF) and other miscellaneous programs. High cost loop support and interstate common line support are based on the Cooperative's current relative level of operating expense and plant investment. Support from the CAF is based on a historical frozen amount related to 2011 investment and expenses associated with the switching function and certain 2011 intrastate access revenues, which together make up the CAF base. The CAF base will be reduced by 5% each year in determining CAF support.

Regulation – The Cooperative's services are subject to rate regulation as follows:

- Interstate access revenues are regulated by the FCC through its regulation of rates and settlements procedures as administered by NECA.
- Universal Service revenues are administered by Universal Service Administration Company (USAC), based on rules established by the FCC.

Other sources of revenues are not rate regulated, and include local wireline, intrastate access revenues, data, long distance, equipment sales, directory, rents, billing, and other incidental services.

Nonregulated expenses and nonregulated plant are directly attributable to these nonregulated services: data, billing, and miscellaneous revenues.

All other operating expenses and telecommunications plant are related primarily to wireline revenues. However, some of these costs jointly relate to regulated and nonregulated services. For interstate access settlements, universal service support, rate case and other regulatory purposes, the portion of these common costs related to nonregulated activities are removed in accordance with Part 64 of the FCC rules in order to ensure that regulated revenues are based on costs of providing regulated services.

BLACKFOOT TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Regulation (continued) – In October 2011, the FCC issued an order reforming Intercarrier Compensation and Universal Service Funding (USF) mechanisms and issued a Further Notice of Proposed Rulemaking (FNPRM) on long-term USF reform, transition timing, and implementation. The majority of the impacts of these regulations began on July 1, 2012.

Major provisions of the order and FNPRM include:

- Limitations on the amount of support received per line
- Limitations on capital expenditures and operating expenses recoverable from the USF
- Benchmarks for minimum local rates charged to end users by recipients of support
- The establishment of the Access Recovery Charge billed to end users
- The phase out of local switching support and the establishment of the CAF, a new funding mechanism for investment and expenses related to the switching function
- The structured reduction of carrier access rates charged by the Cooperative to other carriers using its network to complete long distance calls

Management is monitoring the impacts of the reform on an on-going basis.

Software development costs – The Cooperative’s subsidiary capitalizes the direct costs associated with the development of software products when they meet the established criteria. Otherwise, costs associated with the development of a detailed program design and/or working model, those incurred after product release, and research and development performed under contract, are charged to operations.

Advertising expenses – The Cooperative expenses advertising costs as incurred. Advertising expenses during the years ended December 31, 2012 and 2011, were \$456,173 and \$391,916, respectively.

Fair value measurements – Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The Cooperative follows a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following are the three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies (continued)

Fair value measurements (continued) – The fair value measurement guidance is applicable to the Cooperative in the following areas:

- Available for sale securities (Note 3)
- Goodwill and indefinite-lived intangible assets impairment testing (Note 4)

Taxes imposed by governmental authorities – The Cooperative is subject to taxes assessed by various governmental authorities on many different types of revenue transactions with its customers. These specific taxes are charged to and collected from the Cooperative's customers and subsequently remitted to the appropriate taxing authority. The taxes are accounted for on a net basis and excluded from revenues.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are available to be issued. The Cooperative recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Cooperative's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Cooperative has evaluated subsequent events through February 28, 2013, which is the date the financial statements are available to be issued.

Note 2 – Investments in Nonaffiliated Organizations

Investments in nonaffiliated organizations consist primarily of assigned patronage from other cooperatives accounted for on the equity method and nonmarketable stock of telephone industry corporations. Investments in nonaffiliated organizations are carried at cost as the investments do not have readily determinable fair values, and consist of the following:

	2012	2011
National Bank for Cooperatives (CoBank) stock	\$ 690,079	\$ 701,539
Patronage capital in other cooperatives	10,664	10,582
Vision Net	855,604	855,604
Rural Economic Development loans	130,800	144,000
Rural Telephone Finance Cooperative capital certificates	483,726	483,726
Other	24,311	24,311
	<u>\$ 2,195,184</u>	<u>\$ 2,219,762</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Investments in Nonaffiliated Organizations (continued)

Vision Net, Inc. provides advanced voice, data, and video services and is owned by Montana's independent telephone companies allowing them to interconnect a digital fiber network serving urban and rural communities throughout the state. The investment is maintained on the cost method of accounting.

Note 3 – Available for Sale Securities

The following is a summary of the Cooperative's investment in available for sale securities:

	December 31, 2012		
	Carrying Amount	Gross Unrealized Gain	Fair Value
Mutual funds	<u>\$ 4,713,833</u>	<u>\$ 18,472</u>	<u>\$ 4,732,305</u>
	December 31, 2011		
	Carrying Amount	Gross Unrealized Gain	Fair Value
Mutual funds	<u>\$ 7,405,899</u>	<u>\$ 475,351</u>	<u>\$ 7,881,250</u>

Shares of mutual funds are valued using the quoted net asset value of shares held by the Cooperative at the end of the year and are classified within Level 1 of the valuation hierarchy.

Note 4 – Intangible Assets and Goodwill

Goodwill and intangible assets deemed to have indefinite lives are subject to annual impairment tests. Other intangible assets are amortized over their useful lives.

Nonamortizable intangible assets consist of investments in wireless operating licenses issued by the FCC and Internet domain names. The FCC licenses are scheduled to expire in 2022 but are expected to be renewed. All licenses and domain names have been deemed by management to have indefinite lives. Management has determined the fair value of the licenses and domain names exceeds their carrying value and no impairment loss was recorded as of December 31, 2012.

Amortizable intangible assets consist of customer listings. The lists are being amortized between five and ten years to nonoperating expense using the straight-line method.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Intangible Assets and Goodwill (continued)

The following table provides the gross carrying value and accumulated amortization for each major class of intangible asset as of December 31, 2012 and 2011:

	Gross Carrying Amount	Accumulated Amortization	2012 Net Balance	2011 Net Balance
Nonamortizable intangible assets				
Wireless licenses	\$ 1,528,300	\$ -	\$ 1,528,300	\$ 1,528,300
Internet domain names	23,389	-	23,389	23,389
	<u>1,551,689</u>	<u>-</u>	<u>1,551,689</u>	<u>1,551,689</u>
Amortizable intangible assets				
Customer list	770,186	(511,945)	258,241	6,337
Software	806,619	(800,539)	6,080	6,440
	<u>1,576,805</u>	<u>(1,312,484)</u>	<u>264,321</u>	<u>12,777</u>
	<u>\$ 3,128,494</u>	<u>\$(1,312,484)</u>	<u>\$ 1,816,010</u>	<u>\$ 1,564,466</u>

Total amortization expense for the years ended December 31, 2012 and 2011, was \$38,456 and \$102,953, respectively.

The estimated amortization expense for each of the next five years is \$29,000.

Goodwill of \$836,972 represents the cost of Midwest, Inc. assets in excess of the fair value of various assets and liabilities acquired in 2012. See Note 11 for additional information on the acquisition.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 – Property, Plant, and Equipment

Property, plant, and equipment balances, together with accumulated depreciation and amortization, consist of the following at December 31, 2012 and 2011:

	Depreciable Life	Plant Account	Accumulated Depreciation/ Amortization	2012 Net Balance	2011 Net Balance
Regulated:					
General support assets	5 - 35 years	\$ 16,690,491	\$ 9,355,127	\$ 7,335,364	\$ 7,469,281
Central office assets	7 - 10 years	22,786,883	17,615,530	5,171,353	6,557,893
Cable and wire facilities assets	7 - 25 years	70,189,422	41,805,161	28,384,261	29,125,552
Intangibles	3 - 5 years	3,155,685	1,431,549	1,724,136	1,829,770
Plant under construction	n/a	103,193	-	103,193	256,118
		<u>112,925,674</u>	<u>70,207,367</u>	<u>42,718,307</u>	<u>45,238,614</u>
Nonregulated:					
General support assets	3 - 6 years	1,449,716	994,462	455,254	221,207
Central office assets	8 - 10 years	6,902,582	4,911,554	1,991,028	2,129,215
Cable and wire facilities	20 years	3,830,734	1,613,191	2,217,543	2,217,376
Internet	3 years	1,147,045	853,340	293,705	327,370
Plant under construction	n/a	125,037	-	125,037	197,705
		<u>13,455,114</u>	<u>8,372,547</u>	<u>5,082,567</u>	<u>5,092,873</u>
		<u>\$ 126,380,788</u>	<u>\$ 78,579,914</u>	<u>\$ 47,800,874</u>	<u>\$ 50,331,487</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Long-Term Debt

Long-term debt is as follows as of December 31:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>2012</u>	<u>2011</u>
Rural Utilities Services (RUS), fixed	0.14%-5.49%	2013-2023	\$ 10,886,079	\$ 11,281,684
National Bank of Cooperatives (CoBank), variable	1.45-1.46%	2015-2018	4,862,350	6,023,394
National Bank of Cooperatives (CoBank), fixed	5.40%	2018	3,600,000	4,200,000
RUS Economic Development loan, fixed	0.00%	2020	<u>131,860</u>	<u>144,000</u>
			19,480,289	21,649,078
Less current portion			<u>3,061,233</u>	<u>3,007,380</u>
			<u>\$ 16,419,056</u>	<u>\$ 18,641,698</u>

All assets of the Cooperative are pledged as security for the long-term debt. The terms of the mortgage agreements contain restrictions requiring the maintenance of defined ratios for times interest earned, operating cash flows, debt service coverage, equity to total assets, and limitation on additional debt and dividend distributions.

Maturities of long-term debt obligations for the five years following December 31, 2012, are as follows:

2013	\$ 3,061,233
2014	2,988,729
2015	2,567,947
2016	2,487,876
2017	2,023,279
Later years	<u>6,351,225</u>
	<u>\$ 19,480,289</u>

At December 31, 2012, the Cooperative had unadvanced authorized loan funds from RUS in the amount of \$20,147,856.

The Cooperative has a line of credit agreement in the amount of \$1,000,000 with First Valley Bank. As of December 31, 2012, there is no outstanding balance on this line of credit.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 – Self Insurance

In April 2004, the Cooperative implemented the Blackfoot Telephone Cooperative, Inc. Health Benefit Plan (Plan), a self-funded group health program providing medical, vision, and dental coverage for its active and retired employees and directors. The Cooperative contracts with a third-party to act as claims administrator. Funding for benefits is derived from the employer and employee contributions. The Cooperative limits its potential losses through insurance policies with stop-loss carriers. For the years ending December 31, 2012 and 2011, the Cooperative paid \$1,794,529 and \$2,032,943, respectively, in Plan expenses. Management has set aside \$552,127 and \$223,671 in a cash account at December 31, 2012 and 2011, respectively, for the sole purpose of funding self insurance claims.

Note 8 – Income Taxes

Components of the provision for income tax benefit (expense):

	2012	2011
Current		
Federal	\$ (40,747)	\$ (73,835)
State	(150)	(150)
Deferred		
Federal and state	(135,633)	(816,067)
Change in valuation allowance	296,905	865,979
	<u>\$ 120,375</u>	<u>\$ (24,073)</u>

This income tax benefit (expense) is reflected in the statements of income as follows:

	2012	2011
Nonregulated	\$ 112,942	\$ 49,761
Nonoperating	3,117	(73,834)
	<u>\$ 116,059</u>	<u>\$ (24,073)</u>

The provision for income taxes differs from the amount computed by applying the current statutory federal income tax rate to earnings before taxes due to the effect of the patronage exclusion of the Cooperative, nondeductible items, the change in valuation allowance, and prior year over or under accruals. Additionally, due to the patronage exclusion, no deferred tax provision is recognized for the defined postretirement benefit plan and available for sale securities included in other comprehensive income (loss).

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 8 – Income Taxes (continued)

The components of the net deferred tax liability recorded in the accompanying balance sheets at December 31 are:

	2012	2011
Deferred tax assets		
Contribution carryforward	\$ 5,868	\$ 5,868
Deferred revenue	20,746	13,720
Allowance for bad debts	339	9,081
Net operating loss carryforwards	735,031	998,734
Alternative minimum tax credit carryforward	802,585	833,184
Accrued warranty	35,815	2,100
Other	90,843	29,416
	1,691,227	1,892,103
Less valuation allowance	<u>(1,546,471)</u>	<u>(1,843,376)</u>
	144,756	48,727
Deferred tax liabilities		
Tax depreciation and amortization greater than book	<u>(230,372)</u>	<u>(176,661)</u>
Net deferred income tax	<u>\$ (85,616)</u>	<u>\$ (127,934)</u>

The subsidiaries have a federal and state net operating loss carryforward of approximately \$2,100,000 and \$1,500,000, respectively. The federal net operating losses expire in varying amounts between 2024 and 2027. The state net operating losses expire in varying amounts between 2013 and 2017. The subsidiaries have AMT credits of \$33,023. The credits can be carried forward until utilized.

The Cooperative has AMT credits of approximately \$770,000 that can be utilized if the Cooperative is taxable due to failing the 85% test.

The net change in the deferred tax asset valuation allowance in 2012 was a decrease of \$296,905.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 9 – Deferred Credits

The amounts recorded as deferred credits at December 31 are as follows:

	2012	2011
Postretirement health care plan liability, long-term portion	\$ 860,525	\$ 826,736
Right of use service obligation	800,714	559,892
Unclaimed capital credits	146,090	128,439
Deferred revenue	29,635	-
Accrued sick leave, long-term portion	1,404,844	1,404,844
	<u>\$ 3,241,808</u>	<u>\$ 2,919,911</u>

During 2010 and 2012, the Cooperative granted a 20-year fiber indefeasible right of use (IRU) agreement to another carrier. The revenue from the prepaid IRUs in the amount of \$645,000 and \$290,000 will be deferred and amortized on the straight-line basis over the life of the contracts.

Note 10 – Retirement Plans

The Cooperative provides three retirement benefit plans (Plans) for all full-time and part-time employees electing coverage. These Plans include a defined benefit pension plan, a defined contribution savings plan, and a postretirement health care plan.

Postretirement benefits – The postretirement health care plan is a defined postretirement benefit plan sponsored by the Cooperative for retired employees under the age of 65. Substantially all of the Cooperative's employees may become eligible for those benefits if they reach normal retirement age while working for the Cooperative.

Obligation and funded status – The amount of benefit to be paid depends on a number of future events incorporated into a formula, including estimates of the average life of employees and average years of service rendered, and future interest rates. The benefit obligation is the "accumulated benefit obligation," which represents the present value of all future benefits attributed to employee service rendered through the measure date and does not include changes in future compensation.

The Plans' actuaries measure the accumulated postretirement benefit obligation at October 1 and estimate the obligation at December 31 based on projected interest and service costs, amortization, and benefit payments.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Retirement Plans (continued)

The following table summarizes the benefit obligations and the funded status of the defined postretirement health care plan (Plan) over the two-year period ending December 31, 2012:

	<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>
Estimated accumulated postretirement benefit obligation at December 31	<u>\$ 955,018</u>	<u>\$ 896,365</u>

Amounts recognized in the balance sheets at December 31 consist of:

	<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>
Current liabilities	\$ 94,493	\$ 69,629
Noncurrent liabilities	860,525	826,736
	<u>\$ 955,018</u>	<u>\$ 896,365</u>

The Plan is unfunded at December 31, 2012 and 2011.

Amounts included in other comprehensive income (loss) that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	<u>Other Postretirement Benefits</u>	
	<u>2012</u>	<u>2011</u>
Transition obligation	\$ (38,618)	\$ (55,782)
Accumulated loss	<u>(243,333)</u>	<u>(189,572)</u>
Net amount recognized	<u>\$ (281,951)</u>	<u>\$ (245,354)</u>

The accumulated loss is a result of the accumulated difference between the actuary's estimates based on actuarial principles and the Cooperative's actual experience with factors such as future salary increases, the length of employment, the discount rate for the Plan obligations, and the expected rate of return on Plan assets.

The unrecognized initial obligation represents the difference between the accumulated benefit obligation and the fair value of Plan assets as of the date the Cooperative was required to implement ASC 715 (formerly FAS 158).

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Retirement Plans (continued)

The estimated net gain and transition obligation that will be amortized from other comprehensive income (loss) into net periodic benefit cost over the next year is \$23,846.

The net periodic benefit cost is the amount recognized in the financial statements as the cost of the Plan for the year. Components of the net periodic benefit cost are service cost, interest cost, and amortization of unrecognized gains/losses and initial obligations.

	Other Postretirement Benefits	
	2012	2011
Net periodic benefit cost	\$ 120,028	\$ 112,517
Benefit payments	\$ 104,688	\$ 103,264

Other Plan information – Estimated future benefit payments, which reflect expected future service, as appropriate, are as follows:

	Other Postretirement Benefits
2013	\$ 94,493
2014	71,933
2015	53,211
2016	35,922
2017	27,979
Years 2018-2022	24,766

The weighted average assumptions used in the measurement of Cooperative's benefit obligation are shown in the following table at December 31:

	Other Postretirement Benefits	
	2012	2011
Discount rate	5.00%	5.50%
Rate of compensation increase	3.00%	6.00%

For measurement purposes, a 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2012. The rate was assumed to decrease gradually each year to a rate of 5% for 2016 and remain at that level thereafter.

BLACKFOOT TELEPHONE COOPERATIVE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10 – Retirement Plans (continued)

Defined benefit plans – Substantially all employees of the Cooperative participate in a multi-employer pension plan. Employees are eligible to receive an annuity or lump-sum payment at retirement. The portion of the benefit related to the pension is based on an average of prior years' compensation. The Company also participates in the MTA-sponsored defined contribution retirement plan.

The Cooperative makes quarterly contributions to the Plans based on each employee's compensation. The employer contributions for 2012 and 2011 were \$1,050,927 and \$1,062,891, respectively.

The Plan name is *Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and Its Member Systems*. The Plan Employer Identification Number is 52-0741336/333. The information provided below is from the Plan's most recent Form 5500 filing, which covers the Plan years 2011 and 2010. At the date the financial statements were issued, Form 5500 was not available for the year ending 2012.

Pension Protection Act Zone Status		Company Contributions Greater than 5% of Total Plan Contributions	Rehabilitation Plan in Place	Surcharges Imposed	Expiration Date of Collective- Bargaining Agreements	Minimum Contributions Required in the future
2011	2010					
At least 80% funded	At least 80% funded	No	No	Yes	N/A	No

The risks of participating in multi-employer plans are different from single employer plans as follows: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (3) if the Cooperative chooses to stop participating in a plan, the Cooperative may be required to pay a penalty.

BLACKFOOT TELEPHONE COOPERATIVE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11 – Acquisition

In February 2012, Blackfoot Communications, Inc. (BCI) acquired the stock of Modwest, Inc. (Modwest) for \$1.4 million. Modwest is a Missoula based webhosting and data storage company with over 5,000 customers located throughout the world. The acquisition is expected to expand BCI's existing customer base and will provide a platform to launch other new products and services. Modwest was subsequently merged into BCI. The operating results of Modwest from February to December are included in the accompanying consolidated financial statements. In accordance with accounting standards related to business combinations, the total purchase price was allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Cash	\$ 26,177
Accounts receivable	14,807
Property, plant, and equipment	354,655
Customer list	289,999
Deferred income tax liabilities	(122,610)
Goodwill	<u>836,972</u>
	<u>\$ 1,400,000</u>

Note 12 – Subsequent Events

In January 2013, the Cooperative acquired Cutthroat Communications and Fremont Telephone for approximately \$7 million and \$30 million, respectively. Due to the dates of the acquisitions, the initial accounting has not been completed. In conjunction with the transactions, the Company paid off its existing loans and obtained new debt from CoBank in the amount of \$40.8 million.

SUPPLEMENTARY INFORMATION



REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY INFORMATION

Board of Trustees
Blackfoot Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Blackfoot Telephone Cooperative, Inc. as of and for the year ended December 31, 2012, and have issued our report thereon dated February 28, 2013, which contained an unmodified opinion on those financial statements, and appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for the purposes of additional analysis of the consolidated financial statements, rather than to present financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Moss Adams LLP

Spokane, Washington
February 28, 2013

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEET DETAIL

	December 31, 2012			
	Blackfoot Telephone Cooperative, Inc.	BTC Holdings, Inc.	Eliminating Entries	Consolidated Balances
CURRENT ASSETS				
Cash and cash equivalents	\$ 10,314,879	\$ 1,041,711	\$ -	\$ 11,356,590
Restricted cash	552,127	-	-	552,127
Subscriber accounts receivable	1,445,855	678,119	(231,422)	1,892,552
Settlement and access accounts receivable	1,052,216	239,991	-	1,292,207
Other accounts receivable	86,184	349,439	-	435,623
Accounts receivable, affiliates	-	30,287	(30,287)	-
Material and supplies	281,528	97,732	-	379,260
Other current assets	371,039	56,758	-	427,797
Notes receivable, current portion	343,333	-	(343,333)	-
Total current assets	14,447,161	2,494,037	(605,042)	16,336,156
NONCURRENT ASSETS				
Investment in affiliates	4,285,743	-	(4,285,743)	-
Investment in certificates of deposit	2,050,001	-	-	2,050,001
Investment in nonaffiliates	1,609,344	585,840	-	2,195,184
Securities available for sale	4,732,305	-	-	4,732,305
Intangible assets	1,528,300	287,710	-	1,816,010
Goodwill	-	836,972	-	836,972
Notes receivable, net of current portion	1,736,668	-	(1,736,668)	-
	15,942,361	1,710,522	(6,022,411)	11,630,472
PROPERTY, PLANT, AND EQUIPMENT				
Regulated telecommunications plant in service	112,822,481	-	-	112,822,481
Regulated telecommunications plant under construction	103,193	-	-	103,193
Nonregulated plant in service	252,338	13,077,739	-	13,330,077
Nonregulated plant under construction	-	125,037	-	125,037
	113,178,012	13,202,776	-	126,380,788
Less accumulated depreciation and amortization	70,459,706	8,120,208	-	78,579,914
	42,718,306	5,082,568	-	47,800,874
	\$ 73,107,828	\$ 9,287,127	\$ (6,627,453)	\$ 75,767,502

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED BALANCE SHEET DETAIL

	December 31, 2012			
	Blackfoot Telephone Cooperative, Inc.	BTC Holdings, Inc.	Eliminating Entries	Consolidated Balances
CURRENT LIABILITIES				
Accounts payable, general	\$ 1,242,676	\$ 500,742	\$ (231,422)	\$ 1,511,996
Accounts payable, affiliates	30,287	-	(30,287)	-
Advance billing and customer deposits	1,352,365	458,213	-	1,810,578
Current maturities of long-term debt	2,500,189	904,377	(343,333)	3,061,233
Other accrued taxes	431,332	-	-	431,332
Other accrued liabilities	2,325,323	299,318	-	2,624,641
Accrued interest payable	63,929	1,701	-	65,630
Income taxes payable	(161)	4,464	-	4,303
Total current liabilities	7,945,940	2,168,815	(605,042)	9,509,713
LONG-TERM DEBT, net of current portion	15,717,750	2,437,974	(1,736,668)	16,419,056
OTHER DEFERRED CREDITS				
Other deferred credits	2,932,829	308,979	-	3,241,808
Deferred income tax	-	85,616	-	85,616
Total deferred credits	2,932,829	394,595	-	3,327,424
MEMBERS' EQUITY				
Memberships and other capital	46,811,732	-	-	46,811,732
Accumulated other comprehensive loss	(300,423)	-	-	(300,423)
Capital stock	-	15,642,000	(15,642,000)	-
Retained margins	-	(11,356,257)	11,356,257	-
	46,511,309	4,285,743	(4,285,743)	46,511,309
	\$ 73,107,828	\$ 9,287,127	\$ (6,627,453)	\$ 75,767,502

BLACKFOOT TELEPHONE COOPERATIVE, INC.
CONSOLIDATED STATEMENT OF INCOME DETAIL

	Year Ended December 31, 2012			
	Blackfoot Telephone Cooperative, Inc.	BTC Holdings, Inc.	Eliminating Entries	Consolidated Balances
Operating revenues				
Local	\$ 5,502,881	\$ 2,794,552	\$ (171,285)	\$ 8,126,148
Interstate	11,068,685	433,613	-	11,502,298
Intrastate	836,179	387,839	-	1,224,018
Long distance	1,125,396	259,739	-	1,385,135
Customer premises equipment	-	200,904	-	200,904
Data services	4,977,960	3,656,055	(1,629,436)	7,004,579
Security	-	139,642	-	139,642
Telesphere software	-	2,249,859	(49,714)	2,200,145
Miscellaneous	1,492,363	1,180,861	(672,531)	2,000,693
Uncollectible revenue	23,644	(69,958)	-	(46,314)
	<u>25,027,108</u>	<u>11,233,106</u>	<u>(2,522,966)</u>	<u>33,737,248</u>
Operating expenses				
Plant specific operations	4,612,233	2,661,837	(1,132,656)	6,141,414
Plant nonspecific operations	1,558,260	750,615	(3,092)	2,305,783
Cost of goods sold - Telesphere	-	1,081,368	(7,146)	1,074,222
Cost of goods sold - data	1,406,027	1,906,563	(1,261,453)	2,051,137
Cost of goods sold - security	-	142,085	-	142,085
Cost of goods sold - CPE	-	118,532	-	118,532
Depreciation and amortization	6,151,362	1,106,260	-	7,257,622
Customer operations	2,295,872	1,797,719	(75,708)	4,017,883
Corporate operations	3,475,029	1,253,758	(42,911)	4,685,876
Other operating taxes	813,501	63,542	-	877,043
	<u>20,312,284</u>	<u>10,882,279</u>	<u>(2,522,966)</u>	<u>28,671,597</u>
Operating margins	<u>4,714,824</u>	<u>350,827</u>	<u>-</u>	<u>5,065,651</u>
Nonoperating income (expense)				
Interest and dividend income	361,821	22,523	(45,733)	338,611
Loss on sale and disposal of assets	-	(74,448)	-	(74,448)
Interest expense	(796,098)	(69,941)	45,733	(820,306)
Allowance for funds used during construction	3,597	-	-	3,597
Other nonoperating income (expense)	729,836	(6,667)	-	723,169
Income from subsidiary	339,552	-	(339,552)	-
	<u>638,708</u>	<u>(128,533)</u>	<u>(339,552)</u>	<u>170,623</u>
Margins before income taxes	<u>5,353,532</u>	<u>222,294</u>	<u>(339,552)</u>	<u>5,236,274</u>
Income tax benefit	<u>3,117</u>	<u>117,258</u>	<u>-</u>	<u>120,375</u>
Net margins	<u>\$ 5,356,649</u>	<u>\$ 339,552</u>	<u>\$ (339,552)</u>	<u>\$ 5,356,649</u>

BLACKFOOT TELEPHONE COOPERATIVE, INC.
BTC HOLDINGS, INC. CONSOLIDATED BALANCE SHEET

	December 31, 2012				
	BTC Holdings, Inc.	Telesphere Software, Inc.	Blackfoot Communications, Inc.	Eliminating Entries	Consolidated Balances
CURRENT ASSETS					
Cash and cash equivalents	\$ 303	\$ 416,491	\$ 624,917	\$ -	\$ 1,041,711
Subscriber accounts receivable	-	-	678,119	-	678,119
Settlement and access accounts receivable	-	-	239,991	-	239,991
Other accounts receivable, net	-	340,963	8,476	-	349,439
Accounts receivable, affiliate	-	20,656	146,579	(136,948)	30,287
Material and supplies	-	-	97,732	-	97,732
Other current assets	-	5,868	50,890	-	56,758
Total current assets	303	783,978	1,846,704	(136,948)	2,494,037
NONCURRENT ASSETS					
Investment in affiliates	4,372,317	-	-	(4,372,317)	-
Investment in nonaffiliates	-	-	585,840	-	585,840
Intangible assets	-	1,079	286,631	-	287,710
Goodwill	-	-	836,972	-	836,972
Deferred income taxes	50,221	-	-	(50,221)	-
	4,422,538	1,079	1,709,443	(4,422,538)	1,710,522
PROPERTY, PLANT, AND EQUIPMENT					
Nonregulated plant in service	-	286,255	12,791,484	-	13,077,739
Nonregulated plant under construction	-	-	125,037	-	125,037
	-	286,255	12,916,521	-	13,202,776
Less accumulated depreciation and amortization	-	220,881	7,899,327	-	8,120,208
	-	65,374	5,017,194	-	5,082,568
	<u>\$ 4,422,841</u>	<u>\$ 850,431</u>	<u>\$ 8,573,341</u>	<u>\$ (4,559,486)</u>	<u>\$ 9,287,127</u>

**BLACKFOOT TELEPHONE COOPERATIVE, INC.
BTC HOLDINGS, INC. CONSOLIDATED BALANCE SHEET**

	December 31, 2012				
	BTC Holdings, Inc.	Telesphere Software, Inc.	Blackfoot Communications, Inc.	Eliminating Entries	Consolidated Balances
CURRENT LIABILITIES					
Accounts payable, general	\$ -	\$ 133,700	\$ 367,042	\$ -	\$ 500,742
Accounts payable, affiliates	136,948	-	-	(136,948)	-
Advance billing and customer deposits	-	-	458,213	-	458,213
Current maturities of long-term debt	-	250,000	654,377	-	904,377
Other accrued liabilities	-	195,640	103,678	-	299,318
Accrued interest payable	-	-	1,701	-	1,701
Income taxes payable	150	-	4,314	-	4,464
Total current liabilities	137,098	579,340	1,589,325	(136,948)	2,168,815
LONG-TERM DEBT, net of current portion	-	500,000	1,937,974	-	2,437,974
OTHER DEFERRED CREDITS					
Other deferred credits	-	-	308,979	-	308,979
Deferred income tax	-	-	135,837	(50,221)	85,616
Total deferred credits	-	-	444,816	(50,221)	394,595
MEMBERS' EQUITY					
Capital stock	15,642,000	6,450,000	9,182,000	(15,632,000)	15,642,000
Additional paid-in capital	-	263,224	-	(263,224)	-
Retained deficit	(11,356,257)	(6,942,133)	(4,580,774)	11,522,907	(11,356,257)
	4,285,743	(228,909)	4,601,226	(4,372,317)	4,285,743
	\$ 4,422,841	\$ 850,431	\$ 8,573,341	\$ (4,559,486)	\$ 9,287,127

BLACKFOOT TELEPHONE COOPERATIVE, INC.
BTC HOLDINGS, INC. CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2012				
	BTC Holdings, Inc.	Telesphere Software, Inc.	Blackfoot Communications, Inc.	Eliminating Entries	Consolidated Balances
Operating revenues					
Local	\$ -	\$ -	\$ 2,794,552	\$ -	\$ 2,794,552
Interstate	-	-	433,613	-	433,613
Intrastate	-	-	387,839	-	387,839
Long distance	-	-	259,739	-	259,739
Customer premise equipment	-	-	200,904	-	200,904
Data services	-	-	3,656,055	-	3,656,055
Security	-	-	139,642	-	139,642
Telesphere software	-	2,249,859	-	-	2,249,859
Miscellaneous	-	-	1,180,861	-	1,180,861
Uncollectible revenue	-	1,208	(71,166)	-	(69,958)
	-	2,251,067	8,982,039	-	11,233,106
Operating Expenses					
Plant specific operations	-	88,751	2,573,086	-	2,661,837
Plant nonspecific operations	-	-	750,615	-	750,615
Cost of goods sold - Telesphere	-	1,081,368	-	-	1,081,368
Cost of goods sold - Data	-	-	1,906,563	-	1,906,563
Cost of goods sold - Security	-	-	142,085	-	142,085
Cost of goods sold - CPE	-	-	118,532	-	118,532
Depreciation and amortization	-	40,940	1,065,320	-	1,106,260
Customer operations	130,598	257,320	1,409,801	-	1,797,719
Corporate operations	-	374,182	879,576	-	1,253,758
Other operating taxes	-	1,070	62,472	-	63,542
	130,598	1,843,631	8,908,050	-	10,882,279
Operating margins	(130,598)	407,436	73,989	-	350,827
Nonoperating income (expense)					
Interest and dividend income	-	-	22,523	-	22,523
Loss on disposal of assets	-	-	(74,448)	-	(74,448)
Interest expense	-	(20,221)	(49,720)	-	(69,941)
Other nonoperating expense	-	(6,667)	-	-	(6,667)
Income from subsidiary	420,079	-	-	(420,079)	-
	420,079	(26,888)	(101,645)	(420,079)	(128,533)
Income (loss) before taxes	289,481	380,548	(27,656)	(420,079)	222,294
Income tax benefit (expense)	50,071	(14,796)	81,983	-	117,258
Net income	\$ 339,552	\$ 365,752	\$ 54,327	\$ (420,079)	\$ 339,552



**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

Board of Trustees
Blackfoot Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Blackfoot Telephone Cooperative, Inc. (Cooperative) and its subsidiaries as of and for the year ended December 31, 2012, and have issued our report thereon dated February 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Blackfoot Telephone Cooperative, Inc. and its subsidiaries is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS* (continued)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Cooperative in the audit fieldwork exit conference.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, the Rural Utilities Service, and supplementary lenders, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Spokane, Washington
February 28, 2013



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Board of Trustees
Blackfoot Telephone Cooperative, Inc.

We have audited the consolidated financial statements of Blackfoot Telephone Cooperative, Inc. (Cooperative) and its subsidiaries for the year ended December 31, 2012, and have issued our report thereon dated February 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR 1773, *Policy on Audits of Rural Utilities Service Borrowers*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

In planning and performing our audit of the consolidated financial statements of the Cooperative and its subsidiaries for the year ended December 31, 2012, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the consolidated financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR 1773.33(e)(2) and related party transactions and investments. In addition, our audit of the consolidated financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports (other than our independent auditor's report, and our independent auditor's report on internal control over financial reporting and on compliance and other matters, all dated February 28, 2013) or summary of recommendations (other than the audit fieldwork exit conference) related to our audit have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding the Cooperative's internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement, or lease between the borrower and an affiliate for the year ended December 31, 2012, of the Cooperative:
 - Obtained and read a borrower-prepared schedule of new written contracts, agreements, or leases between the borrower and an affiliate as defined in 7 CFR 1773.33(e)(2)(i).
 - Reviewed Board of Trustees' minutes to ascertain whether Board-approved written contracts are included in the borrower-prepared schedule.
 - Noted the existence of written RUS approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit the *Operating Report for Telecommunications Borrowers* to the RUS:
 - Agreed amounts reported in the *Operating Report for Telecommunications Borrowers* to the Cooperative's records.

The results of our tests indicate that, with respect to the items tested, the Cooperative complied, in all material respects, with the specific RUS loan and security instruments provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in 7 CFR 1773.33(e)(2)(i); and
- The borrower has submitted its *Operating Report for Telecommunications Borrowers* to the RUS, as of December 31, 2012, represented by the borrower as having been submitted to the RUS in agreement with the Cooperative's audited records, in all material respects, and appears reasonable based on the audit procedures performed.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the consolidated financial statements of the Cooperative and its subsidiaries, nothing came to our attention that caused us to believe the Cooperative failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33(c)(1);

INDEPENDENT AUDITOR'S MANAGEMENT LETTER
(continued)

- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR 1773.33(c)(3) and (4);
- The approval of the sale, lease, or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5);
- The disclosure of material-related party transactions for the year ended December 31, 2011, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(e); and
- The detailed schedule of investments.

Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i), and attached to this letter, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as whole.

See attached Schedule of Investments in Affiliated Companies.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, the RUS, and supplementary lenders and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Spokane, Washington
February 28, 2013

BLACKFOOT TELEPHONE COOPERATIVE, INC.
RUS SCHEDULE OF INVESTMENTS IN AFFILIATED COMPANIES

	BTC Holdings, Inc.
Original investment cost	\$ 13,019,662
Issuance of additional stock	6,000,000
Dividends received	(4,700,000)
Merger of subsidiary retained earnings into the Cooperative	(7,175,606)
Undistributed earnings as of December 31, 2011	<u>(4,197,865)</u>
Book value of investment as of December 31, 2011	2,946,191
Issuance of additional stock	1,000,000
Undistributed earnings as of December 31, 2012	<u>339,552</u>
Book value of investment as of December 31, 2012	<u>\$ 4,285,743</u>

The Cooperative owns 100% of the stock of BTC Holdings, Inc. and consolidates its investment. BTC Holdings, Inc. is a holding company owning 100% of the stock of Telesphere Software, Inc. and Blackfoot Communications, Inc. BTC Holdings, Inc. consolidates these investments.

Blackfoot Communications, Inc. provides competitive local exchange services within Missoula and is also an Internet service provider.

Telesphere Software, Inc. provides sales, support of computer software systems, and service bureau management of carrier access billings.

CONFIRMATION

Congratulations. Your filing has been successfully certified.

Filing 2 was successfully certified on Thu Oct 10 18:22:30 EDT-2013 by mnorbeck@blackfoot.com .

SAC : 482235

SPIN : 143002531

Carrier Name : BLACKFOOT TEL - BTC

Program Year : 2014

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